



Office of Inspector General Northeast Region

# **Audit Report**

Summary of Audit Results
Continued Monitoring of EBT System
Development - State of New Jersey



## UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL Northeast Region Suite 2-2230 5601 Sunnyside Avenue, Stop 5300



5601 Sunnyside Avenue, Stop 5300 Beltsville, Maryland 20705-5300

DATE: May 21, 2004

REPLY TO

ATTN OF: 27099-65-Hy

SUBJECT: Summary of Audit Results

Continued Monitoring of Electronic Benefits Transfer (EBT) System

Development - State of New Jersey

TO: John Chandler

Acting Regional Administrator

Mid-Atlantic Region

Food and Nutrition Service

**Peter Santos** 

Deputy Administrator Mid-Atlantic Region

Food and Nutrition Service

This memorandum report presents the results of our audit of the Continued Monitoring of EBT System Development for the State of New Jersey (NJ). Our objective was to evaluate the adequacy of controls established to ensure the integrity of the EBT system. We concluded that, in general, the State's internal controls were in place and operated as designed. However, our audit identified opportunities for improvement to include: (1) measures for precluding issuing excessive numbers of EBT replacement cards to recipients; and (2) strengthening of controls over EBT system access.

# **BACKGROUND**

The US Department of Agriculture's (USDA) Food and Nutrition Service (FNS) administers the Food Stamp Program (FSP) through a joint Federal-State partnership. The Federal Government pays the full cost of recipient benefits and shares the cost to administer the FSP with the States. Congress funds the FSP through the direct appropriation of funds. Through this joint Federal-State partnership, FNS is pursuing EBT implementation by each State for the FSP nationwide.

The Food Stamp Act of 1977 (Public Law 88-525) authorized FNS to experiment with alternative methods for the delivery of FSP benefits using electronic data processing and computer technology. With this authorization, FNS allowed State agencies to begin issuing FSP benefits using an EBT system. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-193), requires all States to implement EBT systems before October 1, 2002. In NJ, the EBT system is used to issue FSP benefits to recipients. EBT has eliminated the need for the issuance of food stamp coupons. Instead, benefits are delivered through the use of the Families First card, a plastic, magnetic–stripe card that is issued to each recipient.

Public Assistance programs in NJ are State-supervised and county-administered. The Division of Family Development (DFD) is the State Agency responsible for overseeing programs that provide assistance in the form of cash, food stamps, and child support to eligible families and individuals. The DFD is a division of the NJ Department of Human Services.

The State Agency has contracted with eFunds Corp. to provide EBT services. The current contract became effective on August 15, 1997. The State completed statewide implementation in June 1999. The current contract extension expires on August 14, 2004.

NJ food stamp benefits totaled \$314 million in fiscal year (FY) 2002. Preliminary results for FY 2003 indicate that approximately 163,000 NJ households received nearly \$339 million in food stamp benefits.

# **OBJECTIVES**

The overall objective of our audit was to evaluate the adequacy of controls established to ensure the integrity of the EBT system and assess whether the controls functioned as designed. The audit: (1) identified internal controls established in key operational areas; (2) included tests to ensure controls were in place and operated as designed; and (3) provided an assessment of the adequacy of prescribed controls.

#### SCOPE

The audit was conducted at the FNS Mid-Atlantic Regional Office (MARO) in Robbinsville, NJ, the NJ DFD in Hamilton Township, NJ, and the Mercer County Board of Social Services in Trenton, NJ, selected because of its proximity to the DFD in Hamilton Township. The audit reviewed the controls established to ensure the integrity of the EBT system and assessed its operation. The audit did not include State Agency certification of recipients for FSP benefits or FNS Field Office retailer approval functions. Our audit covered the period from January 2002 through June 2003, except for the audit test on replacement EBT cards, which covered the period since the inception of EBT in August 1997. Our fieldwork was performed during the period April through August 2003. Audit work was suspended from September through December 2003, due to congressionally mandated work in another area.

The audit was conducted in accordance with generally accepted Government auditing standards.

## **METHODOLOGY**

At FNS MARO, we assessed the adequacy of the oversight of the State's EBT system by MARO. We interviewed Regional Office officials regarding their roles and responsibilities in monitoring the State's EBT system. We reviewed written guidance provided to the State, EBT system access by the Regional Office, EBT system reports, waivers to regulations including justifications for the waivers, program analyses of the EBT system, and financial reconciliations. We reviewed the Regional Office's use of the Anti-Fraud Locator Using EBT Retailer Transactions system and assessed actions taken on identified retailers. We reviewed procedures implemented to ensure that the Store Tracking and Redemption Subsystem was timely updated with retailer information changes and determined whether the EBT processor timely updated the EBT system with retailer authorization information.

At DFD, we reviewed the EBT contract, detail design manual, eFunds' EBT System Security Manual, EBT operating rules, EBT policies and instructions, merchant agreements, contracts with third-party processors, requests for waivers from FNS EBT regulations, other audits and studies of the EBT system, EBT system complaints, and technical arrangements for Point of Sale communication with the EBT processor. We performed audit tests on manual transactions, retailer payments and transactions, financial reconciliations, use of management reports, out-of-State transactions, handling of stale and expunged benefits, and the conversion of benefits to coupons or cash when a recipient leaves the State.

At the Mercer County Board of Social Services we reviewed the use of management reports, restoration of benefits, the conversion of benefits to coupons or cash when a recipient leaves the State, and the EBT card issuance process.

# **SUMMARY OF AUDIT ISSUES**

## 1. NJ Issued Excessive Numbers of EBT Cards

We found that NJ issued 33,712 excessive<sup>1</sup> EBT replacement cards to 5,228 individuals since the inception of EBT in the State in 1997. Eleven individuals had been issued 30 or more cards during this period. This occurred because the State did not have a policy in place requiring counties to interview recipients when they request an excessive number of EBT replacement cards, or to charge a replacement fee. We believe that interviewing would enhance the State's services to FSP recipients by identifying and being able to address reasons for issuing excessive cards. In addition, a replacement fee would help reduce the number of replacement cards issued, and lessen the related administrative costs to the State and Federal Government. As a result, we believe that the State may not be

We define excessive as the third and any additional EBT cards issued over the life of the program to an individual recipient based on surveys conducted by FNS of States that charge replacement fees.

aware of the need for improving such program functions as providing adequate recipient training, or identifying indications of potential fraudulent activity. In not charging a replacement fee, the State and Federal Government may have incurred increased administrative costs, and issued excessive EBT replacement cards.

Federal regulations<sup>2</sup> allow States to charge a fee to replace EBT cards, and the fee is not to exceed the cost to replace the card. In our review, we found that 13<sup>3</sup> States charged such a fee to replace an EBT card. In addition, a survey conducted by FNS in 2002, showed that a replacement fee would help reduce the number of replacement cards issued. The survey also indicated that NJ considered charging a fee.

Although a State official told us that the cost to replace an EBT card in NJ was ten dollars, we believe that this amount would be too high as a replacement fee. Of the 12 States that charge replacement fees for magnetic-stripe cards, the fees range from one dollar to five dollars. In this regard, we believe that charging a fee for EBT replacement cards in NJ could lessen the administrative costs of issuing excessive replacement cards.

# **Recommendation No. 1:**

Direct the State Agency to implement a policy for interviewing recipients regarding the use of EBT cards when excessive numbers of EBT cards have been issued.

#### Agency Response:

Eight of the eleven individuals mentioned above who were issued 30 or more EBT cards are homeless. Homeless individuals consistently have one of the highest card replacement rates. Some of NJ's local agencies already have a policy of interviewing individuals who request an excessive number of replacement cards; however, NJ will develop and implement a statewide policy for interviewing recipients who have received an excessive number of EBT cards.

## OIG Position:

We agree with the proposed corrective action; however, to reach management decision, we need the completion date by which NJ will implement its statewide policy for interviewing recipients who have received an excessive number of EBT cards.

#### Recommendation No. 2:

Encourage the State Agency to charge a fee, as allowed in 7 C.F.R. Part 274.12(g)(5)(v), when issuing excessive replacement cards to reduce the number of replacement cards

<sup>&</sup>lt;sup>2</sup> 7 C.F.R. Part 274.12(g)(5)(v).

<sup>&</sup>lt;sup>3</sup> Twelve States use magnetic stripe cards and one State, Ohio, uses smart card technology.

issued, and to lessen administrative costs incurred by the State and charged to the Federal Government.

## Agency Response:

NJ has an EBT card replacement fee schedule that was approved by FNS on February 14, 1997; however, implementation was delayed at the request of NJ county welfare agency directors. The directors requested the delay until the fee process could be completely automated so that staff in the county card issuance units would not be required to determine the appropriate fee amount, decide whether the fee should be taken from the food stamp or Temporary Assistance for Needy Families account (or split between them) and then debit the fee from the appropriate account. NJ expects the fee process to be fully automated as part of their next EBT contract, which is scheduled to begin in August 2004. The replacement card fee process will be implemented subsequent to the start of that contract.

## **OIG Position:**

We agree with the proposed corrective action; however, to reach management decision, we need a completion date by which NJ's replacement card fee process will be implemented.

## 2. Controls over Access to the EBT System Need Strengthening

We found that two accounts for terminated employees remained active for 4 months after termination, although we detected no unauthorized access. We identified the two accounts when we obtained a listing of State employees that had been terminated during 2002, and compared it to the EBT User Access Reports from November 2002 to April 2003. This occurred because the State Agency had no policies and procedures for removing system access for employees who have terminated employment, or for employees who no longer have a continuing need for access. The State relied on the eFunds EBT System Security Manual for EBT system security policies and procedures. The Security Manual did not address procedures or controls for the State to remove system access for employees who have terminated employment and those who no longer have a continuing need. In addition, the State did not use the necessary system reports to effectively monitor EBT system access. As a result, there is increased risk of unauthorized access to the EBT system.

## Recommendation No. 3:

Direct the State Agency to develop written procedures to address removing EBT system access by terminated employees, or those who no longer have a continuing need for access.

## **Agency Response:**

Employees of the DFD have "inquiry only" access to the EBT Administrative Terminal, and cannot update or change system data. NJ is working with their Office of Information Systems (OIS) to develop a procedure for communicating information about separated employees to system security administrators, including the EBT Administrative Terminal Security Administrator. Currently, employees who leave DFD employment must complete and sign a checklist indicating that they have returned all State-issued items. Their supervisor must sign the form. Copies are distributed to the Office of Human Resources and the OIS. This form will be redesigned to include system applications so that OIS will know to terminate access.

#### **OIG Position:**

We agree with the proposed corrective action; however, to reach management decision, we need the completion date by which NJ will implement its procedure for communicating information about separated employees to system security administrators, including the EBT Administrative Terminal Security Administrator. A completion date is also needed for implementation of the redesigned checklist that includes system applications so that OIS will know to terminate access.

Please be reminded that Departmental Regulation 1720-1 requires a management decision to be reached on all findings and recommendations within a maximum of 6 months from report issuance. If you have any questions or need additional information, please have a member of your staff contact Rocco LaMonaca, Assistant Regional Inspector General for Audit, at (301) 504-2104.

We appreciate the assistance you and your staff provided to us during our review.

//s//

REBECCA ANNE BATTS Regional Inspector General for Audit

Attachments



United States
Department of
Agriculture

Food and Nutrition Service

Date: APR 2 6 2004

Mid-Atlantic Region

Subject: FSP - OIG Audit 27099-65-Hy

300 Corporate Blvd Robbinsville, NJ 08691-1598 Audit Results on Continued Monitoring of Electronic Benefits Transfer System Development, State of New Jersey

To: Rebecca Anne Batts

Regional Inspector General for Audit

Following are New Jersey's responses to the findings and recommendations resulting from the above subject audit as discussed at the March 24<sup>th</sup> exit conference. We believe that New Jersey has adequately addressed all issues. We will follow-up on their responses as necessary.

## **Audit Issues**

# 1. New Jersey Issued Excessive Numbers of EBT Cards

The auditors found that 5,228 individuals were issued three or more EBT cards since the beginning of the statewide expansion of the EBT system in 1997, and that eleven of those individuals were issued 30 or more cards over the six-year period that ended in 2003.

#### Recommendation No. 1

USDA/OIG recommended that New Jersey implement a policy for interviewing recipients regarding the use of EBT cards when excessive numbers of EBT cards have been issued.

#### New Jersey's Response

Eight of the eleven individuals mentioned above who were issued 30 or more EBT cards are homeless. Homeless individuals consistently have one of the highest card replacement rates. Some of New Jersey's local agencies already have a policy of interviewing individuals who request an excessive number of replacement cards; however, New Jersey will develop and implement a statewide policy for interviewing recipients who have received an excessive number of EBT cards.

Rebecca Anne Batts Page 2

#### Recommendation No. 2

USDA/OIG encourages the State to charge a fee when issuing excessive replacement cards to reduce the number of replacement cards issued and to lessen administrative costs incurred by the State and charged to the federal government.

## New Jersey's Response

New Jersey has an EBT card replacement fee schedule that was approved by USDA/FNS on 2/14/97; however, implementation was delayed at the request of New Jersey county welfare agency directors. The directors requested the delay until the fee process could be completely automated so that staff in the county card issuance units would not be required to determine the appropriate fee amount, decide whether the fee should be taken from the food stamp or TANF account (or split between them) and then debit the fee from the appropriate account. New Jersey expects the fee process to be fully automated as part of their next EBT contract, which is scheduled to begin in August 2004. The replacement card fee process will be implemented subsequent to the start of that contract.

#### 2. Controls over Access to the EBT System Need Strengthening

The auditors found that the EBT Administrative Terminal user IDs for two separated DFD employees remained active for four months after the employees left the Division. This occurred because New Jersey does not have policies and procedures for removing system access for employees who leave the agency, or for employees who no longer have a continuing need for access. The auditors did not detect any unauthorized access to the system.

#### Recommendation No. 3

USDA/OIG recommends that the Division develop written procedures to address removing EBT system access for separated employees, or those who no longer have a continuing need for access.

#### New Jersey's Response

Employees of the Division of Family Development (DFD) have "inquiry only" access to the EBT Administrative Terminal, and cannot update or change system data. New Jersey is working with their Office of Information Systems (OIS) to develop a procedure for communicating information about separated employees to system security administrators, including the EBT Administrative Terminal Security Administrator. Currently employees who leave DFD employment must complete and sign a checklist indicating that they have returned all State-issued items. The form must be signed by their supervisor. Copies are distributed to the Office of Human Resources and the OIS. This form will be redesigned to include system applications so that OIS will know to terminate access.

Please let us know if you need further information or if you would like to discuss any of these items.

Sincerely,

John Chandler

Acting Regional Administrator

Mid-Atlantic Region

Food and Nutrition Service

Enclosure